

GLOBAL EXPANSION KAKAO CORPORATION IN MALAYSIA

RAKYUNG PARK¹, NAYEON KIM², INIEE KOO³, MINJUNG SON⁴ & SEUNGHO CHOI⁵

^{1,2,3,4} Undergraduate Students, Department of Management, Ewha School of Business, EwhaWomans University,
Seoul, South Korea

⁵ Assistant Professor, Department of Management, Ewha School of Business, EwhaWomans University,
Seoul, South Korea

ABSTRACT

Kakao Corporation was founded in 2009 as a small enterprise with only 4 members. In November 2013, there are over 100 million Kakao Talk users worldwide. Although Kakao was a huge success in Korean market, it has become a mature market where 97% of consumers who possess smartphone have downloaded Kakao Talk on their phones. Since there is not much room for new customers in Korean market, the company seeks for new market overseas. This paper examines how Kaka Corporation solves its strategic issues to continue its success in Malaysia.

KEYWORDS: 100 Million Kakao Talk Users Worldwide, Smartphone, Korean Market

INTRODUCTION

History of Kakao Corporation

Kakao Corporation was founded in 2009 as a small enterprise with only 4 members. As one of its original members, current chairman, Kim Bum Soo was the former founder of Hangame Communication which was established in 1998, Korea's first generation online game website. As Hangame Communication merged with NHN, Kim became co-president of NHN in 2000, specializing on-line games. He served Korea's Game Industry Association President in 2004. Then Kim leaves NHN in 2007, and establishes Kakao in 2009.

Kakao Talk was released under Kim's command in 2010, which became a huge success reaching 10 million users in just one year. In November 2013, there are over 100 million Kakao Talk users worldwide. Also under the three keywords of "Mobile", "Social" and "Platform", Kakao Corporation now provides other services as well than just Instant Messaging services like Kakao Talk, and has become an integrated mobile platform. Kakao Game, Kakao Page, Kakao Story, Kakao Style, Kakao Plus Friend, Kakao Item Stores would be some of the examples of services that Kakao provides in terms of affiliation.

Kakao's Vision and its Business Model

Eventhough its users rapidly increased ever since its new release of Kakao Talk in 2010, the major problem Kakao had to face instantly was that it didn't have any business model to support the growing company in monetary terms. The company suffered from net loss of 15.3 billion won in 2011.

However, under the three keywords of "Mobile", "Social" and "Platform", Kakao released other mobile platform service such as Kakao Game, Kakao plus Friend, etc. the company has turned its loss to net income of 6.9 billion won during 2012 Most of the platform services were introduced during 2011 and 2012.

The most profitable service is the game services distributed through Kakao Game, where 68% of Kakao's profit is made. During 2012, Kakao game has achieved net income of 31.2 billion won solely. Other than the game services, most of its profit comes from advertisements through Kakao Plus and item sales through the Item Store. Now, the three co-CEOs in Kakao stress the shared vision, "To make Kakao as the global platform that could open the Mobile Ecosystem."

Table 1: Businesses in Kakao Platform

Platform	Service	Partnership	Contents
Commerce Platform	Gifts (Gifticons)	Mobile coupons in affiliation with other enterprises	Provides new opportunities in mobile-commerce market, create new consumer trend
	KaKao Style	Medium and Small-sized fashionenterprises	Create new channel connecting soho malls with potential customers
Marketing Platform	Plus Friends	Brand, social organizations, celebrities, media, etc	Optimized marketing platform connecting target customers with the client
	Story Plus	Corporations and organizations	Provides KaKao story function for corporations and organizations
Game Platform	Game	Medium and small-sized game developers	World's first SNS based game platform, win-win strategy for both the game developers and platform provides
App Platform	Chatting plus	Application developers	Provide services KaKao Talk users can use during messaging
Contents Platform	KaKao Page	Contents developers	Create diverse mobile digital contents, world's first marketable mobile contents distribution channel

Mobile Platform Industry in Asia

About Mobile Platform Service or OTT (Over-the-top) Messaging Application Examples of mobile platforms are Kakao Corporation with KakaoTalk as well as LINE and WeChat. Since Instant Messaging services stand front and function as the main mobile platform of additional services and applications, it is also called as OTT messaging application. Though messaging applications created huge amounts of users in rather short period, it didn't provide the firms a profitable business model. This dilemma made motivated mobile applications firms started to provide other services with the basis of its messaging services. The big 3 players in the mobile platform industry nowadays in Asia are: Kakao, LINE, and WeChat.

As we can see in the strategic group map below, the difference between other mobile communication services and mobile platform service is that communication applications like "KakaoTalk" becomes the initial customer contact point and literally the "gateway" to additional mobile services like games, mobile-books, mobile-commerce, music and etc. Therefore, different from other communication service application as a mobile platform service application, all Kakao, Line and WeChat currently provides other various contents that provides augmented services to the users and work as a effective business model.

Competitors in the Industry: According to the strategic map, compared to its competitors, Kakao seems to have a competitive advantage over others concerning the game platform, due to the fact that it provides broader range of game products. It has more number of games on its platform compared to Line and WeChat satisfying various consumers' favors. Whereas, compared to its competitors, it is currently developing its games through outsourcing, which make Kakao lack vertical integration in the game development process. Line and WeChat has its internal game developers with its fundamental supports from the parent companies, NHN and Tencent.

Table 2: Mobile Game Business Comparison of Big 3

Apps	Kakao	Line	Wechat
Product Range	Broad	108 Apps Broad -Google Play	Low (but strong increase in revenue) Main Two Game apps
Vertical Integration in Game Development	Mainly Outsourcing and Publish alliance	Strong	Strong

Why we are Focusing on Kakao in Malaysia

Kakao's global business expansion: Although Kakao was a huge success in Korean market, it has become a mature market where 97% of consumers who possess smartphone have downloaded Kakao Talk on their phones. Since there is not much room for new customers in Korean market, the company seeks for new market overseas. Based on statistics of June 2013, of about 95 million total users of Kakao Talk, there are approximately 60 million foreign users outside of Korea. To meet these demands and expand its business internationally, Kakao has put efforts to foreign market. They started in Japanese market establishing Kakao Japan in July 2011 and had alignments with Yahoo Japan to expand its business. In Philippines, Kakao is successfully expanding its business through promotions featuring Big Bang, a famous Korean idol group, and Sarah Geronimo, Philippine top star. As in Indonesia, KakaoTalk ranked number one application in both Google Play for Android and App Store for iOS in April 2013.

Growth Opportunity for Mobile Platform Market in Malaysia: The main task for Kakao would be enlarging its market share in foreign markets. As Park Jae Suk, the Samsung Securities Analyst notes "In SNS market, it is critical for the players to become dominant in the market since it is hard to reverse the situation where there is a player which possess 70-80% of the market share. But since there is no existing "dominant" player in the Malaysian market although there are existing competitors. Also, Malaysia is a growing market for smartphone industry which also gives great potentials for mobile platform service providers like Kakao Corporation. Recent study commissioned by Google has announced that the smartphone penetration has increased 300% since 2011. This study revealed that the penetration is now at 35% in 2013, where it was just 2% in 2011. Also, 88% of Malaysians who use smartphones access the Internet every day on their devices and most never leaves home without it. This is compared with about 72% in Singapore and 31% in Thailand. Therefore it is obvious that Malaysia market has growth opportunity for mobile platforms.

Strategic Alliance with Friendster in Malaysia: To attract Malaysian consumers and get insights of the foreign market, Kakao has recently made strategic alignment with Friendster (owned by Malaysi-based MOL) in April 2013. Friendster as a huge social game enterprise and one of world's earliest social networking sites, possess over 100 million users worldwide. Friendster has agreed with Kakao to help promote its chat and social messaging apps Kakao Talk and Kakao Story in Malaysia. This also includes Friendster managing Kakao digital mobile games, mobile gifting, and the digital item store in Malaysian market. The partnership will also see Friendster establishing wholly owned subsidiary called 'Kakao Malaysia Sdn' to operate Kakao's platform in the country. Kakao Malaysia will be responsible for sourcing local contents, advertisers, and new game content, which includes local game developers.

Expected Korea Premium in Malaysia: "Hallyu", "Korean Wave" and "Seoul Fever" all represent the trend of favorable atmosphere towards Korea and Korean culture in Southeast Asia. As Korean show business, including soap dramas, movies, and K-Pops, were introduced to Southeast Asian market, this has created huge fandoms towards Korean

culture as well as products among Southeast Asians. As mentioned before promotions featuring Korean celebrities were a success in these markets and we expect that the situation would be same in Malaysia as well. Hallyu in Malaysia begins from August 2002 when Korean hit drama *Winter Sonata* was introduced on TV3 in Malaysia. Other K-drama, K-movie, K-pop penetrated Malaysian market quite successfully and led Malaysia to be the fastest growing inbound market for Korea with a 40% growth in 2011 and 44% in 2010. This also led to demands for Korean contemporary culture such as cosmetics, apparels, beauty as well as K-tech.

ANALYSIS: INTERNAL ANALYSIS

SWOT Analysis

Strength: Kakao Corporation can leverage its' CEO's tacit knowledge of the software industry. Before launching Kakao, CEO Kim made several innovations in Hangame. Moreover, he also has a lot of connections in that field which could be useful to the company. In addition, by forming a strategic alliance with Friendster, the firm can have access to a 70% market share in Malaysia. Also, appointing Malaysian artist (cf. Yuna) or Korean famous idols (cf. Big Bang) as brand ambassadors results in attracting more customers utilizing their local big fan base

Weakness: Kakao Corporation suffers from lack of capital. Not only the Korean firm detains less money than its competitors, but they also hold an advantage since they have a parent group. For instance, LINE belongs to NHN while WeChat is possessed by TenCent. The fact that Kakao Corporation relies heavily on outsourcing game development can be considered as a weakness as well. The company needs to give considerable proportion of its sales to game developers and publishers. (applications)

Opportunity: These days, South-East Asian countries have a good image of South Korea. This is due to the hallyu wave exporting K-Pop, K-dramas or even Korean food all around the continent. Kakao Corporation can take advantage of this phenomenon since South-East Asians have a vivid demand for Korean products. Furthermore, the smartphone market in Malaysia is promising – the smartphone penetration increased from 47% in 2012 to 63% in 2013. This is due to a change in the consumers behaviors. They now prefer to use their mobile phone data for new services such as instant messaging, social networks or even video streaming. Also, the principal reason why Kakao has opted to enter the Malaysian market is because there was no dominant player in the field of mobile platform in that country yet.

Threat: Kakao Corporation's threat is undoubtedly its competitors. Among them, we can denominate LINE (the Korean firm's main competitor in Malaysia), and WeChat. The thing is that they are first-movers and managed to establish themselves in the Malaysian market before Kakao. As a matter of consequence, they captured market share before Kakao. We can also state that this delayed expansion of Kakao was caused by its lack of capital. However, LINE is Kakao Talk's main rival. They are shaping the message app war on the Malaysian market with aggressive marketing activities such as launching TV advertisements starring celebrities (Kakao's advertisings featured Big Bang and Yun whereas LINE contracted Choi Siwon from Super Junior to star in their TV commercial) or forming alliances with local partners and working with the medias. In Malaysia, Kakao Talk's number of users reached 600k, but LINE, with millions of users in the country is leading the market share.

ANALYSIS: EXTERNAL ANALYSIS ON MALAYSIAN MARKET

Country Analysis

Smartphone industry in the SEA market is now having some spotlight. The smartphone penetration of this market

is keep increasing in a fast speed. Especially Malaysia's market is showing rapid increase of smartphone penetration rate among all SEA market. According to the recently concluded analysis by Ericsson ConsumerLab, smartphone penetration increased from 47% in 2012 to 63% this year. They also expect that the rate will increase higher and higher as the time goes.

Moreover, as smartphone functionality improves and expands, along with consumers' awareness and knowledge of the functionality available via their handsets, the amount of time consumers spend on their smartphones is seeing exponential growth. In Malaysia, smartphone owners spent on average more than three hours a day. They use application with their smartphone for about one hour and more than one hour on communication. What is interesting is that the usage of 'Instant Messaging' increased almost twice, 48% in 2012 to 82% in 2013. This can be an opportunity for Kakao group entering Malaysia.

Mobile platform Industry Competition in Malaysia: Unlike some Asian countries like South Korea, China and Japan whose mobile platform industry is showing signs of "tipping" with such a large smartphone user pool, Malaysia does not have a single dominant player in its OTT mobile messaging application industry. Moreover, the result of previous analysis on Malaysia's smartphone market, the high growth prospect explained in page 5 and 9, is considered as the business opportunity with low risk of mobile application saturation according to McKinsey's report. In addition to this expectation, the absence of dominant mobile platform provider in Malaysia is attracting companies to enter Malaysia since the industry's success is largely explained by "First mover advantage," and "Winner takes it all." This characteristic of mobile platform industry's competition is natural when thinking of the "Network effect," the basic principle behind most of mobile application businesses. Currently, all big 3 companies in OTT mobile messaging application— Kakao, LINE and WeChat – are competing each other in Malaysian market. However, the globalization strategy as well as each mobile platform's business model is slightly different from company to company.

Porter's Five Force Analysis

Industry Rivalry: There exist three main players in mobile platform industry, WeChat, LINE, and Kakao. They are preoccupying different regions of the global market according to the degree of cultural adaptation and market potentials. WeChat, which is a Chinese company, dominates mainland China most of Asian markets. LINE, which is a wholly owned subsidiary of NHN Japan, attracted majority of subscribers in Japan and is expanding to Latin America and Europe, where there are no dominant players yet. Kakao is pursuing international expansion little by little, using sprinkler expansion strategy. This intensifies the rivalry of mobile platform service industry.

Threat of New Entrants: Overall, the threat of new entrants is low. There are many factors that create entering barrier. First one is network effect (also called network externality), which is a defining feature of mobile platform service industry. Network effect occurs when a single person using a good or a service affects the total perceived value of that product or service for others. In other words, the more people use a particular mobile platform service, the higher its value becomes to the group and make others choose that brand beside others. Also, developing mobile platform service requires a great amount of capital. It will be quite difficult for a potential entrant to overcome the barrier since WeChat is supported by TenCent, and LINE is supported by NHN Japan. These companies provide technical and financial support to their subsidiary mobile platform services, allowing them to compete in the global market with less financial burden. Third, competitive reaction is also expected in the case of new entrant. This is because the existing players have much more market knowledge and the business structure is usually easily imitable.

Threat of Substitutes: The threat of substitutes is moderate. Especially in the regions where smartphone penetration rate is quiet low, simple messenger services are more prevalent. Skype is a typical service that provides voice calls and video conferences. Facebook messenger is another strong alternative since more than 874 million monthly active users use Facebook mobile products as of September 30, 2013. Since Facebook messenger works in both computer and smartphone, it is a powerful alternative.

Bargaining Power of Buyers: Bargaining power of buyers is moderate. There are mainly three main players and substitutes, and buyers have multiple options to choose from. However, the network effect locks in the buyers from switching to another service. If buyer's peer group is using one service, it casts high switching cost for the buyer to move to another service that his or her peer group is not registered to. In this way, the bargaining power of buyer is moderate.

Bargaining Power of Suppliers: The bargaining power of suppliers is quiet low. Mobile platform service outsources most of its contents from contents developers, such as music and game. Since it is difficult for the game developers to create independent distribution channel by themselves, they are highly reliant on the platform services' screening process. It is important for contents suppliers to provide good quality contents that satisfy platform service providers so that their contents pass the screening process and reach millions of mobile platform service registered users. Thus, they are paying high percentage of commission (usually about 20%) to publish their contents through mobile platform services. What intensifies the burden of suppliers is that some mobile platform services are insourced. This gives less space for outside contents developers to publish their contents to mobile platform service users.

Comparison with Rivals

WeChat's Multi-domestic strategy in Malaysia: WeChat's globalization strategy in Malaysian market can be seen as "Multi-domestic strategy" in several reasons. First, WeChat has its own Malaysian branch for in-depth localization and popularization of WeChat among Malaysian smartphone users. According to Tencent international business VP PoshuYeung's interview, the region office in Malaysia aims to achieve total localization and Malaysian characteristics within its value chain and actively seeks for innovation and expansion opportunities in Malaysia. WeChat's goals go beyond the introduction of Tencent's products to Malaysian market. It's another goal is to function as a new source of exits for Malaysian start ups which enables to predict that WeChat wants further involvement in Malaysia's mobile application industry, not just as the outsider who came to Malaysia to export its original services.

Second, WeChat has been leveraging active and aggressive M&A contracts for the company's development with its strong financial condition. However, this kind of M&A practice done by WeChat has been arousing antagonism to itself within IT industry. Absorbing the prosperous venture companies in the target market definitely helped WeChat to have more functions and be more integrated, but this aggressive global expansion is also raising woes in Malaysian market recently. Behind all these active globalization movements, international co-operation team, platform co-operation team and global mobile co-operation team of Tencent stand proudly to support WeChat's globalization.

LINE's Multi-Domestic Strategy in Malaysia: LINE's globalization strategy in Malaysia can also be classified as multi-domestic strategy. Like WeChat, LINE also has the regional branch solely for Malaysia to concentrate. Actually, LINE always establishes local unit or office to conduct aggressive marketing in the target market which was chosen very selectively compared to Kakao and WeChat. According to LINE's international marketer, LINE's presence in Latin America or other countries that are considered unfamiliar and not trendy options by other competitors are proofs that how

much LINE puts efforts on selecting the target market for globalization to have differentiation. So far, LINE has been engaging in aggressive international marketing with about US\$ 223 million budget including Malaysia. It's expansion strategy is based on partnership and LINE already has the experience of achieving high local-adaptation and be successful in Singapore, Thailand and etc.

STRATEGIC ISSUES AND SOLUTIONS

Issue #1: Kakao's Strategic Alliance with Friendster to Expand in Malaysia

The first strategic issue is Kakao's strategic alliance with Friendster for their expansion in Malaysia. This is the critical issue for Kakao's Malaysian market penetration because there is a mismatch between Kakao's goal and the current approach. There are three co-CEOs in Kakao, and the shared vision between these three leaders is "to make Kakao as the global platform that could open the mobile ecosystem." The difference mobile platform service has with other mobile communication services is that communication application like KakaoTalk becomes the initial customer contact point and literally the "gateway" to additional mobile platform services like games, mobile-books, mobile-commerce, music and etc. However, the current contract with Friendster of launching "100% wholly owned subsidiary" Kakao Malaysia under Friendster merely pursues globalization on mobile game service. Though the official statement says that Kakao Malaysia will be responsible for marketing and promoting the platform, sourcing local content and procurement, being directed by Friendster who has the experience in game industry only, will make partial globalization.

Putting game forward as the main weapon may seem like a great plan for Kakao, but when looked closely, Kakao has very low involvement (operation of the application), and much directions are decided by Friendster. This conservative strategic alliance of Kakao in the midst of globalization is due to its weak capital structure compared to the competitors. Currently Kakao's stocks are not publicly traded, but it is preparing for the IPO. According to analysts, Kakao is desperate on winning the heart of investors because without financial investments, Kakao will lose its speed in globalization and will be unable to go aggressively. It will remain at the stage of heavy reliance on the target market's partner companies just like the current relationship with Friendster. It is the dilemma of CEO Kim as well. This limited boundary of Kakao makes it difficult to fully leverage Kakao's accumulated know-hows and past successes in South Korea since getting the permission from Friendster, as well as incorporating those services and ideas to Kakao Malaysia means two parties to make agreement on new services every single time.

In contrast, when looking into the competitor, WeChat, it jumps into the Malaysian market itself, establishing the offshore branch by having country manager of their own to actually learn and blend into the target market. With its core capacity in messenger and social chatting, WeChat currently evolved into more like a social mobile platform by launching mobile games. Though it currently has only two games, they are ranked as the most downloaded game and now the 2nd ranking in terms of mobile game publisher. In this sense, WeChat is making aggressive development as the mobile platform service providers, not just providing strong social chatting service with 11 creative features, but also with games that attracts users to stay on WeChat. In order to develop as the "mobile platform" in other countries, Kakao will also need long-term perspective for additional content launchings and in the end, the current strategic alliance with Friendster should be revised.

Solutions for Issue #1

To establish truly global mobile platform service, Kakao should move from multi-domestic strategy to global strategy, which centralizes the control largely by corporate office. This will expand Kakao's control in Kakao Malaysia

across the value chain, which, at this stage, is focused on KakaoMalaysia. Pursuing global strategy would help create uniform standards of quality throughout local branches of Kakao and also enable the transfer and diffuse of knowledge and technology to local markets.

To make this happen, Kakao should generate ‘Kakao Global Strategy Team’ within its corporate office. Within the team there will be a few employees that manage global strategy so that the local branches and the corporate office can achieve higher integration. The team members will be dispatched to local branches to consult some of the main issues they are facing. They will be providing such services by diffusing the knowledge they acquired from prior international expansion experiences. Also, based on such experience, Kakao will be able to provide desirable direction to local branches in a way that aligns with Kakao’s vision. Since it is very difficult to overthrow the strategic alliance contract with Friendster just because it misaligns Kakao’s goal of globalization, Kakao will slowly increase its control throughout the value chain by generating this team.

Along with ‘Kakao Global Strategy Team’, Kakao should establish ‘Global Kakao Conference’. In this conference, the managers of all Kakao local branches around the globe will gather face-to-face in a regular basis. This is a seminar where the managers can share their visions about globalizing Kakao. They will discuss Kakao’s next growth potential, suggestions for new services, technical issues, marketing strategies, organization culture, and so on. It would also allow them to share some difficulties and suggestions as well. After days of discussion, the managers should reach a conclusion for their meeting that all members would agree upon. The conclusion will demonstrate the shared vision and clarification on some local troubles. Unlike other corporate offices that simply order their branches to obey their decision, Kakao should try to give the local managers more responsibility as to shape Kakao’s vision together.

These two efforts will make Friendster and Kakao Malaysia voluntarily abide by the idea generated by ‘Kakao Global Strategy Team’ and ‘Global Kakao Conference’. These solutions are unlikely to evoke a competitive response from WeChat and LINE. They are focusing on multi-domestic strategy, achieving high adaptation to local taste, unlike Kakao that tries to integrate the platform as a global one. The employees are likely to accept the change because the two solutions will definitely help them do their business because the local branches lack expertise to do everything by themselves. This will naturally make Kakao have more control of Kakao Malaysia throughout the value chain because Kakao can educate its Malaysian branch of running platform services other than games.

Issue #2: Need for Integration in Mobile Game Business

Games are currently the most popular mobile app category and this trend has been continued throughout the years and across the borders globally. Kakao’s major revenues are also coming from mobile games with about 68% of total profits from game services in 2012. Therefore, maintaining the competitiveness in game development is a crucial issue for Kakao to sustain its business success in any market that favors game applications.

Behind Kakao’s strength in mobile games stand its 100% game outsourcing structure, the maintenance of stable relationship with game developers and publishers, the keen insight of Kakao’s CEOs and employees to read mobile game trends and demands due to past working experiences in online games which is the VRIN resource of Kakao. Despite the absence of its own internal game developers and publishers, CEO Kim’s expertise in games and social connections due to the experience in Hangame enabled Kakao to easily gain partnership with competitive game developers such as Com2us, Gameloft Korea, SundayToz, Devsisters and etc.

When entering Malaysian market, Kakao noticed the familiar game-centered demands in mobile market which justifies the mobilegame business “cash cow” and even the potential as the future “star” in terms of BCG matrix. Considering the Malaysian game industry’s high growth that generated US\$ 220 million in 2011, and the sensitive Malaysian game players’ taste that is well-known for the driving force of the birth of creative and talented game developers in Southeast Asia, Kakao made the contract with Friendster in its globalization to fully take advantage of their mobile game superiority.

However, there are some threats posed on Kakao’s regime in mobile game business as the number one leader and risks in future Malaysian market competition. First of all, the low integration in its game development procedure. Compared to competitors like LINE and WeChat, Kakao has low integration in game development because it wholly relies on outsourcing fore game contents. While LINE and WeChat actively participates and designs the game to have more compatibility and connection with their existing characters, related applications and other additional services to increase the network effect as well as customer loyalty, Kakao has no right or no option but to actively seek for game contents with high potential to succeed in the target market. With current stagnation in mobile game contents development including Friendster, low integration should be dealt seriously in long-term perspective for the business sustainability in Malaysia.

Secondly, the aggravating relationship with game developers in South Korea is also causing problems in Kakao’s game competitiveness. High commission fee that Kakao receives as the platform provider is making noises within game industry and there are some corporations who already left Kakao’s platform and launched their own applications to approach to customers directly. Even more, Kakao has been pushing game developers and publishers to obey the fee percentage since Kakao is the demand pooling tool for games to be played. These kinds of practices are detrimental for the coexistence within the mobile application industry, hindering the development of small-medium sized IT venture companies that can be described as the future of mobile platform industry.

For Kakao who is 100% dependent on outside game developers, maintaining the close, strategic relationship is the key but the current profit distribution is causing controversies between two parties. One may think that this relationship problem will only influence Kakao’s reputation in South Korea, but the problem is that losing domestic game developers cause Kakao’s competitiveness as a mobile platform to be deteriorated since its service pool size will be diminished. Without a variety of game developers eager to present their products through Kakao, Kakao’s market power as effective mobile platform service provider will be lost and the aggravating cycle will be repeated over and over.

Solutions for Issue #2

As a solution to this issue, we suggest Kakao to enter global market with domestic game developers. As we said at the issue part, because the commission fee is too high, domestic game developers are trying to be independent from Kakao. They are trying to provide game on play store or app store by their selves. Since the game service is the most profitable part for Kakao, losing those game developers is a huge loss. So Kakao have to get high integration and strong relationship with domestic game developers.

Advantages that three parties can have: By entering global market with them, Kakao can achieve both integration and relationship. At first, because it is a high risk taking, domestic game developers can be hesitated to go to global market with Kakao. However, they can have some benefits when going with Kakao than when they enter global

market alone. The advantage is that developers can make games without any regulations. Normally when game developer asks another firm to do marketing of their games, the firm gives the development costs to developer. In that case, the amount of money corresponds with the power of the firm. So, the powerful firm interferes in the whole game development process. So developers can't make the games they want. However, when going together with Kakao, domestic game developers are under Kakao's protection. So they can make games freely. And also since they divide up the work and only focus on what they are good at, games can go abroad efficiently and make more profit. Friendster also can get some information of game industry in Korea by getting some games from Korean developers, and that makes them to take advantage when entering Asian market. Also because Kakao gives some protection to domestic game developers, they can ask the developers to have a long-term relationship with them. At last, Kakao will have strong relationship and high integration with the domestic game developers.

CONCLUSIONS

This paper mainly covered Kakao's expansion to the Malaysian market. The firm decided to pursue its activities in that South-East Asian country because it perceived its market to be rentable. This is implied by several factors in the Malaysian general environment such as the rising penetration of the smartphone market, a growing need for mobile chat application or even the fact that there is no dominant player in that market yet. However, the competition with rivals such as LINE or WeChat happens to be extremely fierce. We have also listed two main strategic issues for Kakao in Malaysia. The first one is its strategic alliance with Friendster. The solutions offered will help Kakao to overcome the competition in Malaysia. However, there is a mismatch between Kakao's goals and the current approach of entering Malaysia. So we suggested that Kakao should opt for a global strategy in order to help create uniform standards of quality throughout local branches of Kakao and also enable the transfer and diffuse of knowledge and technology to local markets. Also, by having a better integration in the game development and by maintaining a good relationship with local developers, Kakao can not only lower the commission fee in the best case, but also release some outstanding games. Malaysian game developers are known for being extremely creative and talented. Working on mobile games will eventually lead them to release game that will attract more users

REFERENCES

1. GabeyGoh. (2013). 2013 is the year of IM: Ericsson ConsumerLab. Digital News Asia. Retrieved from <http://www.digitalnewsasia.com/mobile-telco/2013-is-the-year-of-im-ericsson-consumerlab>
2. Gabey Goh. (2013)., LINE casts itself deeper into Malaysian waters.Digital News Asia. Retrieved from <http://www.digitalnewsasia.com/mobile-telco/line-casts-itself-deeper-into-malaysian-waters>
3. Yeom Jung Yun. (2013). [CEO 뇌구조] 카카오이석우대표이사.Economic Review. Retrieved from <http://www.econovill.com/archives/126809>
4. Corporate information (2015). Facebook Newsroom. Retrieved from <http://newsroom.fb.com/Key-Facts>
5. McKinsey & Company Telecom, Media & High Tech Extranet (2012),The Future of Mobile Messaging: Over-the-top competitors threaten SMS
6. Media Partners Asia (2015) Nielsen Releases.Asia Mobile Report. Retrieved from <http://www.asiamediajournal.com/pressrelease.php?id=5312>

7. EnrickoLukman. (2013). Messaging App War: WeChat and Line are Leaving KakaoTalk Behind; WhatsApp Should Be Worried. Techinasia. Retrieved from <http://www.techinasia.com/messaging-app-war-wechat-line-kakaotalk-whatsapp/>
8. New Straits Times Website, Friendster signs exclusive partnership with Kakao to promote Kakao mobile platform in Malaysia <http://www.nst.com.my/latest/friendster-signs-exclusive-partnership-with-kakao-to-promote-kakao-mobile-platform-in-malaysia-1.293387#ixzz2nlKne2iY>
9. Chong Jinn Xiong. (2013) Smartphone penetration hits 63% in Malaysia. Star Publications. Retrieved from <http://www.thestar.com.my/Tech/Tech-News/2013/09/12/Smartphone-and-tablet-penetration-hits-63-percent.aspx>
10. C Custer (2013) Tencent to Open Malaysia Office: Good News for Malaysian Startups? TechInAsia. Retrieved from <http://www.techinasia.com/tencent-open-malaysia-office-good-news-malaysian-startups/>
11. Tencent corporate information (2013) Retrieved from <http://www.tencent.com/en-us/>
12. Corporate information (2013) Tencent aims to be Internet giant. China Daily-US Edition. Retrieved from <http://global.factiva.com.access.ewha.ac.kr/redir/default.aspx?P=sa&an=CDUSDE0020131018e9ai00018&cat=a&ep=ASE>
13. Josh Robert Nay. (2013) Tencent: WeChat Boasts 100 Million Users Outside China, Continues to Gain Momentum. Trutower. Retrieved from <http://www.trutower.com/2013/08/15/wechat-registered-users-internationally/#WeUUPdm4oGD824x1.99>
14. Brett Peterson. (2013) Where are the Facebook teenagers going? Global Web Index. Retrieved from <http://blog.globalwebindex.net/facebook-teens>
15. Hyun Joo Lee. (2013). [글로벌 SNS 한류대반란] 새역사쓰는카카오특또다른도전, 플랫폼변신성공... '동남아' 낙관적. Korean Business Magazine. Retrieved from http://magazine.hankyung.com/business/apps/news?popup=0&nid=01&nkey=2013070300918000051&mode=sub_view
16. Eun Young Han. (2013). 글로벌 모바일 메신저 서비스 경쟁 전략 및 전망. 방송통신정책. 25,
17. Naver information (2013). Naverdictionary 'Kim BumSoo'. Retrieved from http://people.search.naver.com/search.naver?where=nexearch&query=%EA%B9%80%EB%B2%94%EC%88%98&sm=tab_txc&ie=utf8&key=PeopleService&os=97418
18. SeungWook Noh. (2013). 상장설 나오는 카카오... 자칫하다 해외시장 라인에 다 뺏길라. MK Economy. Retrieved from <http://news.mk.co.kr/newsRead.php?year=2013&no=1104078>
19. Jong Gook Woo. (2013). [스페셜인터뷰] “우리의 경쟁상대는 페이스북과 트위터” 김범수 카카오 이사회 의장. HanKyun. Retrieved from <http://magazine.hankyung.com/business/apps/news?popup=0&nid=01&c1=1005&nkey=2011042000803000011>

[&mode=sub_view](#)

20. Sun Gul Kim (2012). 위대한결단의순간-카카오특김범수.와이즈베리
21. KaKao Corporation information. (2013). Retrieved from <http://www.kakao.com/>